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SUBJECT: LACK OF COMPETITION IN AUSTRIA'S ELECTRICITY MARKET

REF: 04 VIENNA 2972

Summary

1. (U) According to a recent report from Austria's Federal Competition Authority, the anticipated benefits from the liberalization of the electricity market in 2001 have not materialized because incumbent providers have successfully cooperated to maintain a de-facto oligopoly. The incumbents have therefore managed to block foreign competitors from entering the market and prices have remained high. The Austrian Chamber of Commerce has called on the GoA to liberalize the market fully by eliminating the requirement that federal, state, or local governments maintain a 51% share in existing regional energy suppliers. End Summary.

"Liberalization"-Fending Off Foreign Competition

2. (U) A year-end report from the Federal Competition Authority (FCA) has reinforced previous assessments (ref A) that there is a lack of competition in Austria's electricity market. The report also highlighted the difficulties potential foreign competitors face in entering the Austrian market, in which incumbent providers have created a de-facto oligopoly. The FCA report concluded that electricity prices remain high, because incumbents prefer the status quo to price competition. The report opined that the first steps towards market liberalization in Europe have not led to trans border competition, and especially not in Austria. The report criticized the numerous mergers and cross-holdings that followed liberalization of the electricity market in 2001, arguing that companies' primary focus has been to fend off competition from foreign suppliers and start-ups.

3. (U) The report asserted that incumbents maintained high prices by demanding "all-inclusive," non-flexible contracts for bulk electricity users, forcing them to pay a fixed price. This mitigated any benefits that might accrue from subsequent reduced network tariffs, which represent 30% of the overall price. Regarding the household sector, competition for household accounts remains virtually non-existent. In some states, local suppliers have raised household prices by as much as 23% this year.

Business Calls for Full Privatization

4. (U) Christoph Leitl, President of the Austrian Chamber of Commerce, publicly called for the full privatization of regional energy suppliers. (Note: A constitutional law requires that federal, state, or local governments own 51 percent of shares in existing energy suppliers. End Note). In press interviews, Leitl said public ownership had failed because state governments had used energy suppliers to "fatten their budgets." He argued that only complete privatization would lead to real competition and lower energy prices.

Comment

5. (SBU) The initial "liberalization" of the electricity market has not created the anticipated effects -- more (foreign) competition and lower prices. A contact in the energy regulator, E-Control, told us that experiences with electricity markets in other EU countries are very similar. Unstable energy markets worldwide account for a part of the steep price increases in the sector. However, successful efforts by incumbent suppliers to fend off competition have also contributed to an oligopolistic situation and higher prices.

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